

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 EB-04 IGA-01 SS-15 SP-02 L-01

CIAE-00 INR-05 NSAE-00 RSC-01 COME-00 PA-01 PRS-01

USIA-06 DRC-01 H-01 OMB-01 CIEP-01 TRSE-00 NSC-05

/062 W

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R 171500Z OCT 74

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 8359

INFO AMEMBASSY SAN SALVADOR

AMEMBASSY MANAGUA

AMEMBASSY TEGUCIGALPA

AMEMBASSY GUATEMALA

LIMITED OFFICIAL USE SECTION 1 OF 2 SAN JOSE 3983

GUATEMALA ALSO FOR ROCAP

E.O. 11652: N/A

TAGS: EAID, CS, ES

SUBJECT: AID-FINANCED PURCHASE OF TELEVISIONS BY GOES

REF: (A) SAN JOSE 3914, (B) SAN SALVADOR 4077

1. SUMMARY. A.I.D. HAS BEEN THE SUBJECT OF ADVERSE
NEWSPAPER AND RADIO PUBLICITY AND THE EMBASSY HAS
RECEIVED AN INFORMAL COMPLAINT FROM THE GOCR AS A
RESULT OF RESTRICTIONS ON AN AID LOAN IN EL
SALVADOR THAT EXCLUDE COSTA RICAN FIRMS, AND OTHER
CENTRAL AMERICAN FIRMS, FROM BIDDING, WHILE PERMITTING
NOT ONLY US FIRMS BUT ALSO FIRMS FROM
VIRTUALLY ANYWHERE ELSE IN THE WORLD TO PARTICIPATE.
THE EMBASSY EXPECTS TO RECEIVE A FORMAL NOTE OF
PROTEST AND REQUESTS GUIDANCE. THE DEPARTMENT AND
AID/W ARE ALSO ASKED TO CONSIDER WHETHER THERE IS
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ANY CURRENT US INTEREST THAT IS SERVED BY SUCH RE-

STRICTIONS IN OLD AID LOANS, AND, IF NOT, WHETHER THEY COULD BE ELIMINATED. END SUMMARY.

2. AS REPORTED REF (A), EMBASSY HAS RECEIVED COMPLAINT FROM MINISTRY OF ECONOMY, INDUSTRY AND COMMERCE (MEIC) WITH REGARD TO INELIGIBILITY OF COSTA RICA AND OTHER CENTRAL AMERICAN COUNTRIES TO BID ON AN AID-FINANCED PURCHASE OF SOME \$200,000 WORTH OF TELEVISIONS BY THE GOVERNMENT OF EL SALVADOR. THE MEIC ADVISED THE EMBASSY THAT THEY HAD BEEN INFORMED THAT IT WAS AID IN SALVADOR AND NOT THE GOES THAT WAS RAISING THE PROBLEM OF INELIGIBILITY AND ASKED US TO EXPLAIN WHY SUCH A POLICY HAD BEEN ADOPTED.

3. IN RESPONSE TO THIS INQUIRY, AN EMBOFF CONTACTED THE AID MISSION IN EL SALVADOR AND RECEIVED PROMPT REPLY THAT WAS HELPFUL BUT DID NOT SATISFY GOCR. IN BRIEF, AID SALVADOR EXPLAINED THAT THE LOAN UNDER WHICH THE TELEVISION PURCHASE IS TO BE FINANCED IS AN OLD LOAN WHICH CONTAINS THE RESTRICTION THAT ANY BID OVER \$60,000 IN VALUE CAN ONLY BE ACCEPTED FROM OUTSIDE OF THE LOCAL CURRENCY AREA, AND THAT FOR THE PURPOSE OF DEFINING THE LOCAL CURRENCY AREA, ALL CENTRAL AMERICAN COMMON MARKET COUNTRIES ARE TREATED AS IF THEY CONSTITUTED A JOINT MONETARY ZONE; I.E. FOR THE PURPOSE OF THIS PARTICULAR BID THE COSTA RICAN COLON AND THE SALVADORAN COLON ARE GROUPED UNDER THE SAME LOCAL CURRENCY HEADING AND UNDER THE TERMS OF THE LOAN BIDS IN THESE CURRENCIES CAN ONLY BE MADE ON PURCHASES OF \$60,000 OR LESS.

4. EMBOFF PASSED THIS INFORMATION ON TO MEIC OFFICIAL TELEPHONICALLY. REACTION WAS THAT IT SEEMED ILLOGICAL TO TREAT COSTA RICAN CURRENCY AS IF IT WERE SALVADORAN CURRENCY, AND THAT TO EXCLUDE AREA BIDDING ON THIS PROJECT APPEARED TO RUN COUNTER TO AID'S PROFESSED INTEREST IN ENCOURAGING THE GROWTH OF INDUSTRIAL DEVELOPMENT IN THE AREA. THE MEIC OFFICIAL EXPLAINED THAT MEIC MINISTER SANCHEZ WAS PERSONALLY CONCERNED WITH THIS MATTER. MEIC OFFICIAL LIMITED OFFICIAL USE

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INDICATED THAT EMBASSY CAN EXPECT TO RECEIVE FORMAL NOTE FROM GOCR PROTESTING THE INCLUSION OF THIS TYPE OF CLAUSE IN AID LOANS.

5. COMMENT: THE EMBASSY SHARES THE MEIC CONCERN OVER THE ILLOGIC OF TREATING COUNTRIES WITH DIFFERENT CURRENCIES AS IF THEY CONSTITUTED A SINGLE BLOCK. THERE DOES NOT APPEAR TO BE ANY US PURPOSE

THAT WOULD BE SERVED BY ALLOWING, FOR EXAMPLE,
COLOMBIA OR VENEZUELA TO BID ON AN AID PROJECT IN SALVADOR
WHILE NOT ALLOWING COSTA RICA OR GUATEMALA TO BID.

6. WHILE THE CONCEPT OF TREATING ALL CENTRAL AMERICAN
CURRENCIES AS LOCAL CURRENCIES FOR PURPOSES OF AID
PROJECTS WITHIN THE AREA MAY HAVE BEEN DEVELOPED
ORIGINALLY TO BENEFIT THE CACM COUNTRIES, IT NOW
SERVES (IN REFERENCE TO LOANS LIKE THE ONE UNDER DIS-
CUSSION) MAINLY TO EXCLUDE THEM FROM BIDDING ON THE
MORE LUCRATIVE PORTIONS OF PROCUREMENT -- THOSE PORTIONS
INVOLVING SIGNIFICANT DOLLAR AMOUNTS. PARTICIPATION
BY COSTA RICA FIRMS IN THE NATIONAL OR LOCAL
CURRENCY PORTION OF PROCUREMENT UNDER AID LOANS IN
OTHER CACM COUNTRIES HAS A CERTAIN LOGIC SINCE ALL
THE CACM COUNTRIES FORM A COMMON TRADING BLOC. WE
WOULD URGE THAT THIS TREATMENT BE CONTINUED. EXCLUSION
FROM THE "FOREIGN" PROCUREMENT PORTION, MUST
HAVE BEEN BASED ON MONETARY GROUNDS, AND DOES NOT
APPEAR TO HAVE BEEN JUSTIFIED BECAUSE THE CACM COUNTRIES
DO NOT FORM A COMMON MONETARY BLOC.

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/062 W

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R 171500Z OCT 74

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 8360

INFO AMEMBASSY SAN SALVADOR

AMEMBASSY MANAGUA

AMEMBASSY TEGUCIGALPA

AMEMBASSY GATEMALA

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7. THE EMBASSY UNDERSTANDS FROM EMBASSY EL SALVADOR THAT THE BIDDING ON THE TELEVISION CONTRACT HAS REACHED SUCH AN ADVANCED STAGE THAT IT IS UNLIKELY THAT ANY WAY COULD BE FOUND TO ALLOW COSTA RICAN BIDS TO BE ACCEPTED. NEVERTHELESS, WE EXPECT TO RECEIVE A PROTEST FROM THE COSTA RICAN GOVERNMENT, AND PROBABLY FURTHER UNFAVORABLE PUBLICITY THAT WILL CALL FOR A REPLY BY THE EMBASSY. WE ARE CONCERNED THAT OTHER AID LOAN AGREEMENTS WITH SIMILAR PROVISIONS EXIST IN VARIOUS CENTRAL AMERICAN COUNTRIES, AND WE WOULD LIKE TO BE IN A POSITION TO STATE THAT STEPS HAVE BEEN TAKEN TO REMOVE ANACHRONISTIC RESTRICTIONS PROHIBITING CENTRAL AMERICAN SUPPLIERS FROM BIDDING ON AID-FINANCED CONTRACTS IN EACH OTHER'S COUNTRIES.

8. ACTION REQUESTED: THAT THE DEPARTMENT AND AID/W EXPLORE MEANS OF REMOVING RESTRICTIONS DESCRIBED ABOVE THAT HAVE THE EFFECT THAT COMPANIES OPERATING IN CENTRAL AMERICAN COUNTRIES ARE NOT ONLY TREATED LIMITED OFFICIAL USE

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LESS FAVORABLY THAN US COMPANIES IN ELIGIBILITY TO PARTICIPATE IN BIDDING UNDER AID LOANS, BUT ARE ALSO TREATED LESS FAVORABLY THAN COMPANIES LOCATED IN OTHER LATIN AMERICAN COUNTRIES OR IN OTHER PARTS OF THE WORLD.

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